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Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Virginia Consolidated Technical Assistance Grant VA-7782-C29-11. The report is in response to Contract No. BPA 11-01-B.



Vienna, Virginia
January 29, 2013

VIRGINIA CONSOLIDATED TECHNICAL ASSISTANCE GRANT

VA-7782-C29-11

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state, and local government. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the President. Local participation is provided through multi-county local development districts (LDD's). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing, and transportation. These projects create thousands of new jobs, improve local water and sewer systems, increase school readiness, expand access to health care, assist local communities with strategic planning, and provide technical and managerial assistance to emerging businesses.

The Virginia Department of Housing and Community Development administers a variety of state and federally funded programs designed to improve communities throughout the state of Virginia. Among those programs are the grants awarded by the ARC specifically focused on fostering growth and development within the 25 Appalachian counties and eight independent cities in Appalachian Virginia.

On March 15, 2011, ARC announced the approval of the Virginia Consolidated Technical Assistance Grant, project number VA-7782-C29-11, in the amount of \$240,000 (the Grant) to the Virginia Department of Housing and Community Development (the Grantee or Department). The purpose of this Grant was to provide funding for a consolidated program of technical assistance serving Appalachian Virginia. The ARC funds were to be used for the period from July 1, 2011 through June 30, 2012 to support the employment of nine professional staff at varying percentages of dedicated time plus related travel, equipment, supplies, consultants, and other costs. Responsibilities of the staff include administration, managing and monitoring of projects, coordination with local development districts, pursuing overall regional economic initiatives and efforts to develop and promote the ARC region in Virginia. The project was later amended to remove \$50,000 from the "personnel" budget and add funding to the "other" category. This change was for the implementation, development, and design of an internal web-based management information system. The Virginia ARC program was selected as one of the initial programs to be integrated into the system.

Objective

Watkins Meegan LLC has been engaged to conduct a performance audit on the Virginia Consolidated Technical Assistance Grant for the period from July 1, 2011 to June 30, 2012. The purpose of our performance audit was to determine that:

- Funds expended and claimed for reimbursement from ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been achieved.

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Executive Summary

Grant funds were used to fund the payroll and benefits of staff who assisted with the administration and support of the Virginia ARC program and to pay administrative program expenses. Staffing included one associate director, two program managers, three community representatives, one financial analyst, one administrative assistant and one policy analyst to provide continuing services in the area of project development, implementation and monitoring through the year in the seven planning district commissions (or LDD's), 25 counties and eight Independent Cities of the states ARC region. Funds were also used to support an agency-wide initiative to develop a web-based management information system that will support ARC and other Department programs.

Overall, the performance objectives of the Grant were met. Personnel and other costs were less than the Grant award amount of \$240,000. These costs decreased in the current year in part due to staffing changes and more fully established ARC-related projects requiring less oversight than in prior years. Funding was also obtained from other sources.

ARC reimbursed the Grantee funds totaling \$160,247. The final report submitted to ARC on July 15, 2012 did not reflect the budget line item changes and reported costs were not aligned with the revised budget.

Scope

We performed a program review of the Virginia Consolidated Technical Assistance Grant VA-7782-C29-11 at the Virginia Department of Housing and Community Development office from October 17-19, 2012, as described under this section and under the audit methodology section. Our review was based on the terms of the Grant agreement and on the application of procedures compiled in the modified ARC "Sample Audit Program."

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the "Sample Audit Program" prepared by the Office of Inspector General (OIG) at ARC and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the associate director of the Virginia Department of Housing and Community Development, and other members of the Department to discuss the its overall structure and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the project.

Our review of background material included ARC's Grant agreement and related documentation, information from ARC's Grant management system, other Grant requirements, and the Single Audit Report of the Commonwealth of Virginia for the fiscal year ended June 30, 2011.

Our procedures included a review of controls in place for recording, accumulating, and reporting costs under the Grant. We discussed with management and certain staff whether the goals and objectives of the project funded with ARC monies had been met. This included meeting with the associate director and the policy analyst to understand how their daily activities and responsibilities supported the administration of Virginia's ARC program. We also gained an understanding of the responsibilities of other staff funded by the Grant.

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Finally, we examined the payroll history reports for the staff whose employment was supported by the ARC funds received and related records maintained by the human resources department. We also reviewed the supporting documentation (invoices, vouchers, etc.) for a sample of expenditures for the supplies, materials, travel and other expenses that were paid for by ARC funds to determine if they were allowable costs, i.e., the expenses supported ARC staff and project coordination only. We evaluated those payments and other activities for compliance with applicable Grant requirements and federal regulations.

Results

Compliance with Grant Provisions

The ARC (federal) share of actual expenditures incurred, reported, and supported was \$160,247, with an equal amount of matching funds for the period under review. We examined supporting documentation for the costs incurred, and determined that in general the funds had been expended in compliance with the Grant agreement.

The Department noted several reasons for not fully utilizing the available funding of \$240,000: certain construction projects were more fully established and required less oversight than in prior years; staffing levels were reduced due to personnel changes and departmental reorganization; in addition, other funding sources were utilized to support regional projects.

As a result of our procedures, we noted that the budget amounts and costs included in the final report submitted to ARC by the Grantee did not align with the amended Grant agreement, as described below.

Final Reporting

Finding: The Grantee is required to submit accurate and timely final reports to ARC. On May 2, 2012, ARC approved a budget revision that moved \$50,000 out of the "personnel" category into the "other" category to help pay for the costs of a new online management system. The final report submitted to the ARC on July 15, 2012 did not show this shift in dollars within budget categories, and actual reported costs did not align with the revised budget.

Procedures were not in place to ensure that Grant amendments were reflected in final reporting and that costs charged to the Grant were in accordance with the terms of the Grant. Not monitoring Grant amendments could result in expending costs not allowed by the Grant agreement.

Recommendation: The Grantee should submit a final revised report to reflect the budget amounts as amended and costs in categories based on actual expenditures and aligned with budgeted amounts. Internal procedures should require that final reports be reconciled to the Grant requirements, including amendments, prior to submission.

Management Response: Management generally agrees with the observation. A revised final report of costs has been prepared and will be resubmitted to ARC for final approval. Additional procedures are being implemented to ensure that Grant amendments are clearly communicated to responsible personnel and reflected in the financial systems. However, management is not in agreement that the issue of submitting an inaccurate report to ARC should rise to the level of an audit "Finding." It did not materially affect the Grant or the program.

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Other Observations

Detailed records to support required matching funds were not clearly documented in the accounting records. Adequate documentation to support matching requirements of the Grant was provided based on additional inquiries.

We recommend that interim and final reports submitted to ARC for funding be supported by internal schedules that document all program expenses including matching funds. Internal schedules should be agreed to interim funding requests and to final reports, and be reviewed by management prior to submission.